REGULAR MEETING

PUBLIC EMPLOYEES' RETIREMENT BOARD

DECEMBER 4, 2003

The regular meeting was called to order by President Teichrow at 10:30 a.m. Thursday, December 4, 2003. Roll call was taken with all members of the Board being present. Board members and staff present were:

Terry Teichrow, President
Carole Carey, Vice President
Robert Griffith, Member
Betty Lou Kasten, Member
Jay Klawon, Member
Troy McGee, Member
Jim Pierce, Member
Kelly Jenkins, Counsel
Melanie Symons, Counsel
Mike O'Connor, Executive Director
Linda Owen, Secretary

OPEN MEETING

Jim Penner, Board of Investments; Terrence M. Smith, Big Sky County Water and Sewer District; Kevin McRae, State Personnel Division; Mark Johnson, Milliman USA; Ron Alles, Lewis and Clark County; Dale Taliaferro and Jim Christnacht, AMRPE; Glen Leavitt, Montana University System; Lorraine Reid, Flathead County; Angela McDannel, EIAC; Pam Fleisner, Helena School District; Jim Kembel, TIAA-CREF; Sue Winchester, BenefitsCorp; Yvette Stanley, Great-West; Steve Bender, Cathy Muri and Viv Hammill, Department of Administration; Gary Quenzer, Cut Bank PERS member; Michael L. Painter, Rick Ryan, Dan Cotrell, Douglas H. Neil, Matt Norby, and Chad Nicholson, members of the Montana State Firemen's Association; and Ian Steel, Disability Claims Examiner; Kim Flatow, Member Services Bureau Chief; Roxanne Minnehan, Fiscal Services Bureau Chief; Kathy Samson, Defined Contributions Bureau Chief; Carolyn Miller, Administrative Officer; Linda Jensen, DC Accountant; and Keith McCallum, Deputy Executive Director, PERA, joined the meeting.

MINUTES OF OPEN MEETING

The Executive Director presented the minutes of the open meeting of October 31, 2003. Mrs. Carey moved that the minutes of the previous open meeting be approved. Mr. McGee seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

Public Comment – Gary Quenzer, city employee from Cut Bank, spoke to the Board regarding his personal account in the DCRP. He was pleased that a defined contribution plan was provided to the members, but the current rate that is being charged to participants is very high. A percentage can become a sizable amount of money being taken out. He is hoping the Board will put a cap on the fee. He also feels a flat yearly fee would be much more suitable to the plan and equitable for everyone. Mr. Quenzer thinks the Board is doing a very good job and although some people may complain, the majority are very pleased with the DCRP.

President Teichrow stated the Board is aware of the issue, and they hope to be able to change things and make the fee more equitable. Mr. Quenzer thanked the Board for the opportunity to speak to them.

EXECUTIVE DIRECTOR'S REPORT - Mike O'Connor

Board of Investments Update – Jim Penner, Chief Investment Officer, Board of Investments

Mr. Penner presented the Board of Investments' (BOI) review provided annually to the PER Board in December. He summarized the international, national, and state economic review by stating that the global economy was improving. On a total rate of return basis, for the year ending June 30, 2003, the PERS total fund return was 6.61%. Though the total rate of return did not meet the actuarial rate and minimum target rate of 8%, it is better than the negative returns of the two previous years. The total rate of return for the last three years, on average has been a minus -2.07%, for the last ten years the total rate of return earned was 7.88%, very near the actuarial rate. In the investment world, there are ups and downs, and what the portfolio earns for an annual return depends on whether the returns are measured from the peak in the investment cycle or the valley of the investment cycle.

In the 1990's, large capitalization stocks outperformed small capitalization stocks. That is not the norm. Mr. Penner believes that in the current decade small cap stocks will outperform large cap stocks because economic growth in the United States is going to be much slower than it was in the 1990's. In 2003 international stocks are outperforming domestic stocks and much of the out performance is due to currency. The U.S. dollar is declining in value. BOI is continuing to expand retirement fund exposure to private equity despite the diminished investment returns of recent years. Long-term private equity returns have exceeded the 15% benchmark set by BOI.

Mr. Penner shared an investment update of the first four months of fiscal 2004. On a total rate of return basis, the PERS portfolio investment performance underperformed its composite benchmark by 29 basis points, registering a positive 5.24% return. If the market value continues to grow at this pace in fiscal 2004, the two-year total rate of return will exceed the 8% actuarial rate. Domestic equities were up 8.26%, or about 17 basis points better than the composite benchmark for the domestic equity portfolio. International equities were up 14.57% for four months; that is both price appreciation and the gain from currency changes. The four-month fixed income return is minus 1.26%. BOI is working diligently to shorten the duration in the bond portfolio to protect against interest rates going up. The private equity pool return through October 31 was -1.58%.

Mr. Penner reported on investment strategy, stating the PERS portfolio is currently 67% equity, which is the highest equity allocation ever for the portfolio. The total equity portfolio value is capped at 70% with rebalancing mandatory back to 70% for any month end that total equities exceed 70%. The targeted 12% allocation to international equities is still slightly less than a typical public pension plan of comparable size. One of the investment strategies is to keep total equities at 65% or greater as long as the economy maintains a healthy pace.

Mr. Penner pointed out that the retirement fund portfolios have a little less risk and a little less return than a typical public pension plan, but BOI is slowly restructuring the portfolio to take more risk and get more return. This strategy further diversifying the equity portion of the investment portfolio includes a higher allocation to small-midcap stocks, growing the allocation in international equities to the target, and continuing to expand the private equity portfolio toward its 7% allocation target.

Can PERD really earn an 8% investment return over time? Mr. Penner pointed out that investment returns, particularly with a high weighting in equities, are dynamic. If, as many market strategists expect, investment returns over the next few years are going to be less than the historical norm, the portfolio will have to take on more equity risk to achieve the 8% actuarial rate. Since the current portfolio has less risk than the average public pension fund, properly diversified additional risk can be added to increase the likelihood of earning the 8% actuarial rate. An investment portfolio allocating assets 60% to fixed income and 40% to an S&P 500 fund is unlikely to earn 8%. However, a portfolio allocating 65% to a broadly diversified portfolio of equities and 35% to fixed income securities does, in Mr. Penner's professional opinion, have a chance of earning 8% over the next five years.

Plan Choice Rate Report – Mark Johnson, Consulting Actuary with Milliman USA, prepared an analysis of the Plan Choice Rate. The analysis included a brief description of the rate, why it is necessary, and an understanding of how it should be adjusted in the future. This is more of an educational process and no action will be required of the Board at this time.

The current allocation of the employer's contribution to the Defined Contribution Retirement Plan (DCRP) is as follows: 4.19% goes into member account in DCRP to be paid as a benefit at some future point; 0.30% is being accumulated in a disability plan; 0.04% for the Education Fund; and 2.37% for the Plan Choice Rate to the Defined Benefit Retirement Plan (DBRP).

The Plan Choice Rate (PCR) is the percent of the employer contribution allocated to the DBRP for members who choose the DCRP. It is required by statute and actuarially determined to maintain the financial stability of the DBRP. Mr. Johnson noted it is a good idea, but turns out to be very complex. The enabling legislation appropriately established the PCR to provide a mechanism to prevent the costs of the DBRP from increasing solely due to the transfer of members to the DCRP.

Without the PCR, there are two basic reasons the DBRP costs could potentially increase and an adjustment may need to be made:

1. Unfunded liability – a measure of how we stand on financing of the plan compared to our long-term expectation. The long-term expectation is that there is a percentage of payroll that is paid every pay period that should be enough to finance all benefits. That is the normal cost. If you accumulate all those normal costs with the interest you have earned and compare it to your assets, the difference is called the unfunded liability, if your assets are short. The legislature was concerned with the financing of the unfunded

actuarial liability at the time of the transfers and who would pay for it. The legislation provided a starting point for this element of the PCR equal to 2.37% of the DCRP payroll. That is multiplied by the payroll of the participants of the DCRP, but it is contributed to the DBRP to help pay for the unfunded liability.

2. Normal Cost Rate (NCR) – The normal cost is the average cost of benefits for the average person in the plan in any one particular year. There is the potential for an increase in the normal cost rate. What the legislature wanted to avoid is the percentage of payroll going up just because people left. There are two basic elements for why that can happen:

- The "cheapest" member of the DBRP is a person who comes into the plan and leaves a few years later. They are never vested. They take their own money out and the employer's money stays in to help fund the benefits of everyone else.

- The "most expensive" member in the DBRP might be someone with a decent career, but they come into the system at a much later age. So, you are getting the tail end of someone's career and you are trying to finance the benefit without the accumulation of interest compounding over 30-40 years.

To the extent that these elections encourage short-term people, or people hired at a very young age, to select the DCRP, what will happen is that the average cost of benefits in the DBRP will be higher. The legislature recognized that and said that there will be a charge to those DCRP members, to get the normal cost rate back to where it would have been had they not left.

The initial PCR of 2.37% of compensation originally came from the actuarial valuation of PERS as of July 1, 1998. At that time, PERS had an unfunded liability of $185.4 M that could be amortized over 12.75 years at the rate of 2.37% of active member salaries. The 2.37% was, basically, the total contribution rate into the DBRP minus the normal cost rate at that time. The Board does not set the contribution rate, the legislature does. The actuary determines if 2.37% is sufficient to pay off the $185 M over a reasonable length of time. At that point in time, the calculation was that it would be paid off over 12.75 years.

That was the last information the legislature had when they made the decision to establish a PCR. They had no other choice than to use what was there, and what they used was 2.37%. Is that fair to keep that going to amortize the entire $185 M? Mr. Johnson stated we should be measuring the unfunded liability as of June 2003. What part of that unfunded liability is the responsibility of the people who transferred to the DCRP and what is really the responsibility of the people who are in the DBRP?

Mr. Johnson did not think it was fair to have the PCR based upon the 1998 valuation. That was the starting point, but he did not believe, because of the way the statute was constructed, that the legislature meant that to be the long-term charge to the DCRP participants. It needs to be re-measured. The adjustment for the unfunded liability needs to be made as of June 30, 2003. He pointed out that when the 2004 valuation is done, they would also, at that time, look at what the unfunded liability would have been in 2003.

If we have a gain, in a good investment year, that gain reduces the unfunded liability. That gain happened on the assets that were in the DBRP, not the DCRP. Therefore, you cannot take that gain and reduce the obligation of the members who were in the DCRP. That obligation will be set when the number is calculated as of June 30, 2003.

Mr. Johnson felt it was important to note that the unfunded liability is calculated in the valuation for the purpose of measuring how the system is doing. It is based on what is called the "smooth" value of assets. It is not fair market value.

When the DCRP was established, the previous benefit structure in the DBRP has since been enhanced. Those enhancements tend to encourage people, who think they will work a long period of time, to stay in the DBRP. That is going to raise the normal cost rate in the DBRP. The members who have elected to go into the DCRP (and not just those who transferred, but those who make the election in the future), will be responsible for making up the difference between what the normal cost rate would have been had they not made the election, and what the normal cost rate really turns out to be. In summary, there are two adjustments: the normal cost rate adjustment and the unfunded liability adjustment. The Board will be faced with the decision, one year from now, of going to the legislature and telling them what they think the PCR ought to be, either staying at 2.37% or something greater than that.

Mr. Johnson continued to review his report in detail and provided some examples of what the Board might expect when the 2004 valuation is completed next summer. He addressed questions from the Board.

Mrs. Kasten stated that, at the time the bill passed to have a DCRP, she did not think the legislature thought the GABA would be increased. She understood that the legislation was based on 1998 information and, therefore, they did not intend for future benefits, or increased benefits, to the DBRP to fall on the shoulders of the DCRP participants. Mr. Johnson felt that was a good point and will research this. When he calculates the NCR, and calculates the unfunded liability attributable to the DCRP, he will run it through software with the old benefits in it.

Mrs. Kasten stated that the Board needs the legislature to clarify what was intended. Mr. Johnson noted that when the legislature put in benefit enhancements, they did not go back to the PCR language and change it. When people were making their choice, they were choosing between the DCRP and the DBRP with the enhanced benefits. Mrs. Kasten added that one of the drawbacks to the DCRP is that participants have to pay off the original start-up loan, and there is also the PCR. She feels that is deterring many people.

Mr. Jenkins noted that 19-3-2121(3), MCA, states: "…The measurements under this subsection must be based on the defined benefit plan in effect on the effective date of the defined contribution plan until the board determines that the defined benefit plan has been amended in a manner that significantly affects plan choices available to system members." That effective date would be July 1, 2002.

Mr. Johnson explained that he measures the total liability of the system: taking census data on every member of the system, making predictions using a series of assumptions and how long people will stay, when they will retire, what their salaries will be, etc., and predicting all of the benefits that will be paid out of the system for the next 75 years or so. He discounts all those payments back at 8% interest to get a value. Then he says what it would take as a percentage of payroll and every active person to pay for their benefits between the time they enter the systems and the time they leave.

What is the value of all that money coming in? Mr. Johnson subtracts that from the value of all the benefits, and that is equal to what is called the unfunded actuarial liability. If the assets were equal to that amount, the average contribution would be the normal cost and that would fully fund the system. He then compares this actuarial liability with the assets on hand. If the assets are less than that, the difference is called the unfunded actuarial liability. That needs to be paid off at some point in time.

Mr. Pierce asked if the DBRP members get penalized when the PCR goes up. Mr. Johnson said no, to the extent it was attributable to the unfunded liability at the time the DCRP was effective. The legislature is, basically, saying it is not fair to penalize the financial status of the DBRP just because people make a voluntary election to move into the DCRP. In order to keep the funding of the DBRP as it would have been without these elections, there needs to be, potentially, some adjustments. The NCR can be adjusted every two years. DCRP participants will not be responsible for future investment losses in the DBRP. Any gains and losses after these transfers have been made that affect the unfunded actuarial liability, except for the change in the NCR, would not affect the DCRP participants.

The Board does not have to make any decisions at this time. This will also give Mr. Johnson time to do some research and be able to do things the way the law was intended. Mr. McGee thanked Mr. Johnson for his excellent report.

DC Loan Structure Report – Mark Johnson, Consulting Actuary, was asked to develop alternatives to the scheduled repayment of the loan from the Board of Investments to cover the start-up expenses of the Defined Contribution Retirement Plan (DCRP). Mr. Johnson provided options for Board discussion, on ways of restructuring the DC start-up loan to lessen the impact on current members of the DCRP.

Mr. Johnson pointed out the intent of the legislature was to charge the start-up expenses to the accounts of the active members in the DCRP. However, for various reasons, the participation in the DCRP is significantly less than originally anticipated, making repayment more difficult on the current DCRP members. He categorized this as "unintended consequences." Mr. Johnson provided alternative scenarios for debt repayment by plan year. The schedule was made with a variable interest rate of 2.85%.

Using some simple assumptions, he developed a projection of member accounts from recent statistics provided by Mr. O'Connor, showing the estimated DCRP assets based on those projections. The results were not particularly sensitive to any assumption other than investment return and future elections. The expense ratio was calculated as the start-up expense divided by the average of the DCRP assets at the beginning and end of the year. The expense ratios for start-up charges are significantly higher than a normal expense allocation for a defined contribution plan, particularly in the earliest years of the repayment schedule. Mr. Johnson pointed out this expense is in addition to the recordkeeping fees and operating costs.

One way to lessen the impact in the early years is to restructure the debt to produce an expense ratio that is level over the period of repayment. Mr. Johnson developed a scenario that produced an expected expense ratio of 0.85% of assets. The leveling was performed with a discount rate of 8%. This is still a fairly steep charge to assess for the start-up cost.

Another way to lessen the impact on the current participants is to spread the charge over a longer period. For example, if the repayment schedule were revised to a level percent of expected assets over a 10-year period, the charge would decrease from 0.85% to 0.53% of assets.

Mr. Johnson suggested another option is to amend the language defining the Plan Choice Rate to include the start-up expenses. This would amortize the expenses as a percent of the DCRP payroll. The additional charge was estimated to be 0.81% of DCRP salaries, effectively reducing the amount of contributions going into each member's benefit account by this amount.

No action is recommended at this time, other than to provide alternatives that could be presented to the legislature for discussion.

The payback is a loan from the BOI, who are willing to work with us to develop a feasible solution. Mr. Klawon felt it should be a priority to get the internal expense reduced for the DCRP participants.

Steve Bender, Deputy Director for the Department of Administration (DOA), addressed the Board. The DOA is involved in this situation to the extent that the DOA name is on the loan agreement. They are the borrowers of record. Mr. Bender wanted to present a few DOA goals for the Board's consideration.

1. If this loan is renegotiated, DOA does not want to be a party to it. Mr. Bender is confused on why they were in the first place. They administer the bond that edited this program for the State of Montana, and they talk to the rating agencies in the outside financial community. He pointed out it is very clear, when having those discussions, one's reputation must be impeccably clean, or doubt may form. They have the reputation of being extremely honest with this company and they do not want to tarnish that. They would like the Board to give MPERA the permission to service the loan until a permanent solution is found. The bottom line is that the DOA and Director's Office want it "off their radar screen."

2. Another option the DOA has thought about, and granted, they do the accounting for the State of Montana, is for the DB plan to loan the DC plan the money to repay the BOI loan. It is our opinion this could be done without any harm to the financial statement of the DB plan and with no impact on the actuarial soundness of the DB plan.

   This would provide, potentially, an immediate solution to this problem. The Board arranges the loan and has legislative direction that understands there is going to be a long-term loan. The transaction would be cash out, asset in. It would be a formal document between the two funds and could be amortized over as many years as agreed upon.

When this issue surfaced at the DOA, Mr. Bender made these suggestions to Mr. O'Connor, who resisted because he viewed this as a transaction not allowed by law and affecting the actuarial soundness of the DB plan. Mr. Bender stated that if the Board wants to do the "due diligence" on that option, and discuss it with the auditors, DOA is convinced it is okay. Mr. McGee commented that when the issue of making a loan from the DB plan to the DC plan was previously discussed, no legal way could be found to do it. Mr. Jenkins added that there is absolutely no legal way this Board could do that.

Mr. Klawon asked who the victim is and who would suffer because of it, if it were done, because the DB plan would still be actuarially sound. President Teichrow felt someone in the DB plan might question it. Mr. Bender stated an Attorney General's Opinion was not requested because they, typically, do not touch constitutional issues. He also felt, as a DB plan member, he would have no basis to challenge this decision.

Mr. Jenkins explained that this is an investment decision and it would have to be done by the BOI. However, the BOI does not have the authority to do it even if it were constitutional because they do not have the statutory authority to do interagency loans for investments with the pension trust funds. The bottom line is no one has the authority because it is not constitutional. We would not just be loaning money to ourselves. The pension trust fund, which is dedicated to the DBRP, administrative costs, and benefit payments only, would be used for the benefit of the DCRP members' benefit costs or administrative payments. That is unconstitutional. It is not just a matter of replacing it with a receivable. If a receivable were as good as the actual asset, there is no end to that. That is constitutionally not acceptable, and the tax qualification status of the plan would be destroyed.

Mr. O'Connor stated the loan could be negotiated with the BOI, that DOA does not have to be a party to this loan. President Teichrow asked Mr. Bender to provide the Board their written arguments on paper for the Board to review. President Teichrow also asked Mr. Johnson if there was any reason why he made his calculations using ten years, or could it be done for 20 years. Mr. O'Connor stated he had asked Mr. Johnson to use ten years because all of the Intercap loans done by the BOI in the past have been for ten years. President Teichrow would like the BOI to consider a longer term-loan structure.

DCRP Monthly Update – Kathy Samson gave a DCRP monthly update on data through October 2003, providing a detail of the transfers, plan activity, and asset allocation for the DCRP and 457 plans. She addressed a chart of the decisions the Board had made at their September 2003 meeting, regarding the Education Program for the DCRP, as well as all system members. Ms. Samson asked Board members to provide her with any comments they may have, while staff continues to develop a policy based on the Board's decisions.

Office Lease – At the October 2003 Board meeting, the office lease terms as recommended by legal counsel were adopted. Mr. O'Connor advised the Board that, in reviewing the amended office lease with the Board of Investments (BOI), Carroll South will not sign the lease with the proposed language in paragraph 11 (Notice Protocol) and paragraph 12 (Quiet Enjoyment). Mr. South would like to continue using the State's general lease language. Staff has amended the language to recreate a lease that uses the state's general lease language. Mr. McGee moved that the Board approve the amended building lease between the PER Board and the Board of Investments that is included in the Board packet. Mr. Griffith seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

EIAC Recommendations – Kathy Samson advised the Board that John McEwen will be retiring from state government effective December 31, 2003 and he has suggested Kevin McRae as a replacement to serve the remainder of his term (until July 31, 2004) on the Advisory Council. Mr. McRae is a labor negotiator for the Department of Administration, State Personnel Division, and is very interested in serving in the position.

There is also a vacant position on the Advisory Council. Mr. Terry Smith, financial officer for Big Sky County Water and Sewer District 363, has expressed interest in serving on the EIAC and filling the vacant local government representative position.

ICCW has requested a representative on the EIAC. Their current EIAC representative, Angela McDannel, is no longer with ICCW. Ms. Samson pointed out the EIAC bylaws simply state there will be three state employee representatives. It does not designate that one of those state employee representatives must specifically come from ICCW. If the Board wants an ICCW representative on the Council, they could either amend the bylaws to say one of the three state employee representatives will be a representative from ICCW, or just add another representative from ICCW. Some issues to consider are whether there is a need for four state employee representatives on the Advisory Council; if there is a need for a specific sub-group, such as ICCW, to have their own representative on the council; or if the present three state representative positions should suffice.

Mrs. Carey made a motion to:

1. Appoint Glen Leavitt, University System representative; Angela McDannel, state government representative; Lorraine Reid, local government representative; and Tom Schneider, labor government representative, to 3-year terms on the Employee Investment Advisory Council beginning August 1, 2003 and ending July 31, 2006;

2. Appoint Kevin McRae as state government representative to complete retiring Employee Investment Advisory Council member, John McEwen's term that expires July 31, 2004 and;

3. Appoint Terry Smith to the vacant local government representative Employee Investment Advisory Council term that expires July 31, 2004.

Mr. Pierce seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

Marten Settlement – Mr. Jenkins provided a recommended Board motion, a copy of a settlement agreement, and a copy of the complaint that was filed. He also provided a handout with some changes to the complaint. He pointed out that on page two, he added a paragraph that clarifies the waiver by Nancy Marten; Brad Marten's attorney wanted that language in there. There was also revised language in paragraph 2A, to guarantee that the amount was $26,565.91. Mr. Jenkins told them that was what is believed to be the correct amount, that he could provide the information used to arrive at that amount, but he could not guarantee anything because it would undercut the release which states: "…release of all claims includes a release of all known and unknown claims." Both parties and their attorneys have agreed to the proposed settlement.

Mr. Griffith made a motion that benefits in the amount of $26,565.91 be paid from the Public Employees' Retirement System to Bradley S. Marten, as the designated beneficiary of the account of Gary Marten, in total satisfaction of Gary Marten's account according to the terms and conditions contained in a settlement agreement approved by PER Board legal counsel. I further move that when necessary settlement documents have been properly executed and delivered, PER Board legal counsel be authorized to request dismissal with prejudice the judicial action filed as Complaint for Declaratory Judgment, Cause No. CDV-2003-635. Mr. McGee seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

Out of State Travel Authorization – The Board was requested to authorize Mike O'Connor to attend the National Association of State Retirement Administrators (NASRA) Winter Executive Committee meeting in Washington, DC, February 8-11, 2004. Mr. Klawon made a motion to approve the NASRA meeting travel request for Mike O'Connor. Mrs. Carey seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

Out of State Travel Authorization – The Board was requested to authorize Kelly Jenkins to attend the National Association of Public Pension Attorneys (NAPPA) Winter Conference in Washington, DC, February 2-3, 2004. Mr. Klawon made a motion to approve the NAPPA meeting travel request for Kelly Jenkins. Mrs. Carey seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

Future Board Meetings - Thursday: January 22, February 27, and March 27, 2003.

Mr. Griffith moved to approve the Board meeting dates of January 22, February 27, and March 27, 2003. Mr. Pierce seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye.

For future EIAC meetings, the Board members will be provided with agendas and they can decide if they would like to attend.

President Teichrow departed the meeting. Mrs. Carey presided.

Actuarial Audit – Mr. O'Connor would like to have an actuarial audit done next year so the Board, the Legislature, members of the retirement systems, and the public can be comfortable with the work of the consulting actuary, and can rely on the information provided by the actuary. An audit, basically, redoes the valuation and looks at the assumptions, sees if the liability is calculated correctly, and gives an opinion on the reliability of the information provided by the actuary. After the next valuation, Mr. O'Connor would like to have an actual audit done on that valuation in the fall of 2004 and have it available for the next legislative session.

Mr. O'Connor was not sure what the anticipated cost would be. However, he advised the Board that the Teachers' Retirement System is willing to work jointly with the MPERA to put together one Request for Proposal (RFP) and share cost when possible. MPERA has never done this before and Mr. McGee was wondering of what value this would be, and that his feelings on it would be dependent on the cost. Mr. O'Connor felt that, with as much scrutiny as our valuations are going to receive in 2004, they should be as accurate and reliable as possible.

No Board action is required at this time, but Mr. O'Connor wanted an opinion on what the Board is interested in. Mr. McGee would like some idea on the cost before the Board begins an RFP. Mr. Klawon questioned the expenditure when Milliman is a nationally recognized actuarial firm. Mr. O'Connor pointed out that the industry standard is that as part of the Board's due diligence, they need to be assured they can rely on the actuary's information. He feels Mr. Johnson does an excellent job, but for the Board's purpose as fiduciaries of the plan, it would be wise to make sure they can rely on the information provided. Another actuarial firm would do the audit. Mr. O'Connor pointed out that public retirement plans across the country do this auditing on a regular basis. Mr. Griffith agreed with Mr. McGee, that if it were financially feasible, the Board would consider it.

HPORS – Mr. O'Connor advised the Board of the annual supplemental benefit paid each September to Highway Patrol Officers retired prior to July 1, 1991 and not electing GABA. The funding for this benefit is Vehicle Registration Fees. To date, the Board has paid supplemental benefits of $3.5 M, and the HPORS has collected $3.7 M. The difference in the fees collected and the supplemental payments is used to pay off unfunded liabilities of the system.

Audit Report – The fiscal year 2003 financial audit report was received from the Legislative Auditor and MPERA came out with a clean report and an unqualified opinion. This will be presented to the audit committee December 17, 2003. Mr. O'Connor stated he would start including the monthly financial statement of fiduciary net assets in the Board packets.

Operational Summary Report - The Executive Director presented an operational summary report for the month of October 2003, answering any questions Board members had.

The following portion of the meeting relates to matters of individual privacy. President Teichrow determined that the demands of individual privacy clearly exceed the merits of public disclosure. As such, this portion of the meeting will be closed.

CLOSED MEETING

MINUTES OF CLOSED MEETING

The Executive Director presented the minutes of the closed meeting of October 31, 2003. Mr. Griffith moved that the minutes of the previous closed meeting be approved. Mr. Pierce seconded the motion, which upon being submitted to vote, was duly carried with the six attending members voting aye.

RETIREMENT REPORT - Ian Steel, Disability Claims Examiner

Disability Claims - The Disability Claims Examiner presented the disability claims for Board consideration. Mrs. Carey made a motion for approval of the disability claims as recommended for Terry Eaton, with annual review and an IME in one year; for Leroy Wilson, Janis Keith-Redman, Charlene Black, and Vern Conolly, without annual review; and denying the claim for Barbara Fink, Patricia Marie Stene, Oma Williams, and Melodi Wald. Mr. Griffith seconded the motion, which upon being submitted to vote, was duly carried with the six attending members voting aye.

Finalized Service/Disability Retirement Benefits and Monthly Survivorship/Death Benefits - Applications for service retirements/finalized disability benefits and applications for monthly survivorship-death benefits were presented to the Board. Mr. Griffith made a motion to approve the retirement benefits as presented. Mr. McGee seconded the motion, which upon being submitted to vote, was duly carried with the six attending members voting aye.

Legal Services Track Report - The Board Attorneys presented a status report update.

Reserve Military Service and USERRA Rules – The finalized rules will be ready for the January Board meeting.

Bobbie Marlow – Mr. Jenkins filed a motion to dismiss.

Lorraine Houppert - Mr. Jenkins will be filing a motion to dismiss.

CONTESTED CASES

Edward Churchwell – Informal Consideration – Mr. Churchwell is asking consideration by the Board to accept a GABA election at this time. Mr. Klawon made a motion to uphold the staff decision to deny the election change. Mr. McGee seconded the motion, which upon being submitted to vote, was duly carried with the six attending members voting aye.

Wayne Peterson – Consideration of Amended Notice of Exceptions – Last month, the Board determined to remand the decision back to the hearings examiner to make additional Finding of Facts, address the credibility of Mr. Peterson, and revisit her Conclusions and Proposed Order. Mr. Klawon made a motion that the Board accepts the hearings examiner's Findings of Fact, Conclusions of Law, and Proposed Order. Mr. McGee seconded the motion, which upon being submitted to vote, was duly carried with the six attending members voting aye.

ADJOURNMENT

There being no further business to come before the Board at this date, Mr. Klawon made a motion to adjourn the meeting. Mr. Pierce seconded the motion, which upon being submitted to vote, was duly carried with the seven attending members voting aye. The next meeting is tentatively scheduled for January 22, 2004, at 8:30 a.m. in Helena.